

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2007-61-S - ORDER NO. 2007-473  
AUGUST 8, 2007

IN RE: Application of Woodland Utilities, Inc. for	)	ORDER APPROVING
Adjustment of Rates and Charges for the	)	RATES AND CHARGES
Provision of Sewer Service	)	AND ADOPTING
	)	SETTLEMENT
	)	AGREEMENT

**I. INTRODUCTION AND PROCEDURAL HISTORY**

This matter comes before the Public Service Commission of South Carolina ("the Commission") on the Application for an increase in rates and charges for the provision of sewer service filed by Woodland Utilities, Incorporated ("Woodland" or "the Company"). The Application was filed Pursuant to S.C. Code Ann. § 58-5-240 (Supp. 2006) and 26 S.C. Code Ann. Regs. 103-512.4.A (Supp. 2006).

This original Application for approval of rates and charges was noticed in compliance with the instructions of the Commission's Docketing Department. No Petitions to Intervene or Protests were filed. A Joint Motion for Settlement Hearing and Adoption of Settlement Agreement ("the Joint Motion") was subsequently filed by the South Carolina Office of Regulatory Staff ("ORS") and Woodland (together referred to as the "Parties" or sometimes individually as a "Party"). The Parties represented to the Commission that they had engaged in discussions on the issues of this case and determined that their interests and the public interest would best be served by settling all

issues pending in the above-captioned case under the terms and conditions set forth in a Settlement Agreement (the “Settlement Agreement”). The Settlement Agreement, with Exhibits, is attached hereto as Order Exhibit 1.

## **II. DISCUSSION OF THE COMMISSION'S JURISDICTION**

By statute, the Commission is vested with power and jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State. S.C. Code Ann. Section 58-5-210 (1976). Further, it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price at which the company's service is rendered and the quality of that service. Seabrook Island Property Owners Association v. South Carolina Public Service Commission, 303 S.C. 493, 401 S.E. 2d 672 (1991).

Further, the Settlement Policies and Procedures of the Commission (Revised 6/13/2006) are pertinent to the matter before the Commission and consistent with its statutory duties. Section II of that document (“Consideration of Settlements”) states:

When a settlement is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement for the Commission's consideration of the settlement. For example, the Commission may summarily accept settlement of an essentially private dispute that has no significant implications for regulatory law or policy or for other utilities or customers upon the written request of the affected parties. On the other hand, when the settlement presents issues of significant implication for other utilities, customers, or

the public interest, the Commission will convene an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. Approval of such settlements shall be based upon substantial evidence in the record.

This case presents issues of significant implication for the utility and the public interest. As such, this Commission convened “an evidentiary hearing to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” No statute has changed the duties of the Commission in this regard.

### **III. DISCUSSION OF HEARING AND SETTLEMENT AGREEMENT**

The Commission held an evidentiary hearing in this matter on June 14, 2007 in the offices of the Commission. At the hearing, Woodland was represented by John M.S. Hoefer, Esquire, and Benjamin P. Mustian, Esquire. ORS was represented by Nanette S. Edwards, Esquire. The testimony and exhibits of various witnesses were filed with the Settlement Agreement. The Company provided the testimony and exhibits of J. Donald Dial, General Manager of the Applicant, and Donald H. Burkett, a Certified Public Accountant, who advises the Company as to various financial and tax matters. ORS provided the testimony and exhibits of Christina L. Seale, Auditor, and Willie J. Morgan, Program Manager of the ORS Water and Wastewater Department. Robin Dial, President of the Company, adopted the testimony of J. Donald Dial at the hearing. All other witnesses were present and testified at the hearing in support of the Settlement Agreement.

At the hearing, ORS witness Willie Morgan testified that Woodland is a public utility providing wastewater collection/treatment service in portions of Lexington County. According to the Application, services are provided to 422 residential customers, 2 apartment complexes (450 apartment customers – billed as two commercial customers) and a school with 659 persons. Robin Dial, testifying for J. Donald Dial, stated that for the test year ended December 31, 2006, Woodland experienced on a per book basis a (37.21)% operating margin (loss) and had a net loss of \$(60,858). Dial testified that without rate relief, Woodland will become unable to meet its financial obligations, and the Company's ability to provide safe, reliable, and efficient sewer utility services to its customers would be compromised. The witnesses testified that adoption of the Settlement Agreement would be in the public interest and would result in just and reasonable rates for the Company's customers.

In its Application, Woodland requested an increase in annual revenues of \$184,333. In the Settlement, the parties agreed to an increase in annual revenues of \$99,590. Under that Agreement, Woodland would receive approximately fifty-four percent (54%) of the proposed annual revenue set forth in its Application. The Company's last rate increase was in 1991, pursuant to Order No. 91-1023, dated November 20, 1991.

As part of the settlement, the Company agreed to accept ORS's adjustments, as reflected in the Audit Exhibits. The agreed-upon annual revenue increase of \$99,590 is based on an operating margin of 15.01%. In addition, Woodland agrees to file a performance bond for sewer service in the amount of \$225,000 by September 30, 2007.

Further, the Company agrees to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts. (We note that the Company was previously ordered to maintain its books and records in accordance with the NARUC Uniform System of Accounts in Order No. 91-1023, but, apparently, failed to implement that system.) Under the Settlement Agreement, the monthly sewer rate would increase from \$15.00 to \$24.00 per unit and from \$1.07 to \$1.70 per person for schools.

#### **IV. CONCLUSION**

After having heard the testimony of the witnesses, and based on the Commission's review of the Application, the Settlement and Settlement exhibits, and the pre-filed testimony and exhibits submitted during the hearing, the Commission adopts all terms and provisions of the Settlement as just and reasonable and in the public interest. This includes the accounting adjustments, the increase of the Company's operating revenues in the amount of \$99,590, and an operating margin of 15.01%. The Commission also specifically adopts the rates and rate schedules set forth in Settlement Exhibit "B" and attached hereto as Order Exhibit 1. Additionally, the Company is required to file a \$225,000 performance bond in conformity with S.C. Code Ann. Section 58-5-720 (Supp. 2006) as reflected in the parties' Settlement Agreement.

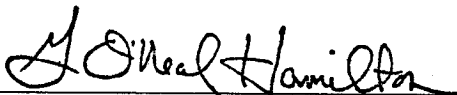
**V. ORDER**

IT IS THEREFORE ORDERED THAT:

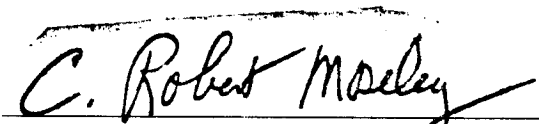
1. The Settlement Agreement between the parties is approved and adopted by this Commission as producing rates that are just and reasonable and in the public interest as well as authorizing a reasonable operating margin for the Company. The rates imposed shall be those rates agreed upon in the Settlement Agreement between the parties as shown in Order Exhibit 1 and shall be effective on and after August 1, 2007.
2. The Company is entitled to the opportunity to earn a 15.01% operating margin.
3. The Company shall file a \$225,000 performance bond by September 30, 2007, as per the terms of the Settlement Agreement.
4. The Company's books and records shall be maintained according to the NARUC Uniform System of Accounts. We request that the Office of Regulatory Staff investigate and report back to this Commission not later than six months from the date of this Order as to the Company's progress in implementing this System of Accounts.

5. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
\_\_\_\_\_  
G. O'Neal Hamilton, Chairman

ATTEST:

  
\_\_\_\_\_  
C. Robert Moseley, Vice Chairman

(SEAL)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2007-61-S**  
**May<sup>23</sup>, 2007**

Application of Woodland Utilities, Incorporated )  
for Adjustment of Rates and Charges for the ) **SETTLEMENT AGREEMENT**  
Provision of Sewer Service )


This Settlement Agreement is made by and between the South Carolina Office of Regulatory Staff ("ORS") and Woodland Utilities, Incorporated ("Woodland" or "the Company") (together referred to as the "Parties" or sometimes individually as "Party").

WHEREAS, the Company has prepared and filed an Application seeking an adjustment of its rates and charges and modifications to certain terms and conditions set out in its rate schedule for the provision of its sewer service;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure established in S.C. Code Ann. § 58-5-240 (Supp. 2006), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, ORS has audited the books and records of the Company relative to the matters raised in the Application and, in connection therewith, has requested of and received from the Company additional documentation;

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**Attachment A**  
**Page 1 of 64**



WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests and in the case of ORS, in the public interest;

WHEREAS, following those discussions the Company has determined that its interests and ORS has determined that the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

NOW, THEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of sewer service which are adequate, just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to obtain a reasonable operating margin.

1. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached as Exhibit "A" to this Settlement Agreement fairly and reasonably set forth the Company's operating expenses, pro forma adjustments, depreciation rates, revenue requirement, and operating margin. The Parties further stipulate and agree that they will not seek, request or otherwise propose or present any evidence supporting additional expenses, revenues, or accounting adjustments other than those identified in Exhibit "A" attached hereto.

2. The Parties stipulate and agree that the rate schedule attached hereto as Exhibit "B", including the rates and charges and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that the rates contained in said rate schedule are reasonably designed to allow the Company to provide service to its sewer customers at rates

  
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and terms and conditions of service that are fair, just and reasonable and provides the opportunity to recover the revenue required to earn a fair operating margin.



3. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

- ... 'public interest' means a balancing of the following:
- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
  - (2) economic development and job attraction and retention in South Carolina; and
  - (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached between the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. The Parties stipulate and agree to these findings.

4. In its Application, the Company has requested an increase in total operating revenues of \$184,333 and a monthly rate of \$31.50 per unit and \$2.46 per person for schools. As a compromise to their respective positions, the Parties stipulate and agree to an increase in total operating revenues of \$99,590, and a rate of \$24.00 per unit and \$1.70 per person for schools. This increase is supported by the adjustments reflected in Exhibit "A."

5. The Company and ORS recognize the value of resolving this proceeding by settlement rather than by litigation and, therefore stipulate and agree for purposes of settlement



  


in this case that an operating margin of 15.01% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.



6. The Parties further stipulate and agree that this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments and depreciation rates reflected in Settlement Exhibit A are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) the operating margin of 15.01% and an annual increase in total operating revenues of \$99,590, is fair, just, and reasonable when considered as a part of this stipulation and settlement agreement in its entirety; (iii) Woodland's services are adequate and being provided in accordance with the requirements set out in the Commission's rules and regulations pertaining to the provision of sewer service, and (iv) Woodland's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and reasonable and should be adopted by the Commission for service rendered by the Company on and after August 1, 2007.

7. The Parties stipulate and agree to include in the record the pre-filed testimony and exhibits of Christina L. Seale, Willie Morgan, Mr. Donald Dial, and Mr. Donnie Burkett attached hereto as Exhibit "C" without cross-examination. Each party reserves its right to present its case in support of the Settlement Agreement including but not limited to the presentation of the witnesses whose pre-filed testimony is included in Exhibit "C" to this Settlement Agreement.

8. The Company agrees to file with the Commission a performance bond for sewer service in the amount of \$225,000 by September 30, 2007.

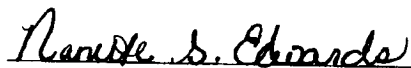
9. The Company agrees to notify the customers of the implementation of these new rates.
10. The Company agrees to maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform Systems of Accounts.
11. The Parties further agree and stipulate that the rate schedule attached hereto as Exhibit "B", including the rates and charges and the terms and conditions set forth therein, are just and reasonable, reasonably designed, and should be approved and adopted by the Commission.
12. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.
13. The Parties agree not to introduce or use this Settlement Agreement to constrain, inhibit, impair, or prejudice the other party in other proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.
14. This Settlement Agreement shall be interpreted according to South Carolina law.
15. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement

Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

WE AGREE:

**Representing the South Carolina Office of Regulatory Staff**



Nanette S. Edwards, Esquire

**South Carolina Office of Regulatory Staff**

Post Office Box 11263

1441 Main Street (Suite 300)

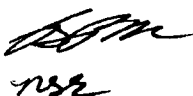
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E-mail: [nsedwar@regstaff.sc.gov](mailto:nsedwar@regstaff.sc.gov)



WE AGREE:

**Representing Woodland Utilities, Inc.**



Benjamin P. Mustian, Esquire

John M.S. Hoefer, Esquire

**Willoughby & Hoefer, P.A.**

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1022 Calhoun Street, Suite 302

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Woodland Utilities, Inc.  
Operating Experience and Operating Margin  
For the Test Year Ended December 31, 2006

	(1) Per Application	(2) Proposed Accounting & Pro forma Adjustments Per Settlement	(3) After Accounting & Pro forma Adjustments Per Settlement	(4) Proposed Increase Per Settlement	(5) After Proposed Increase Per Settlement
<b>Operating Revenues</b>					
Sewer Service - Residential	\$ 74,370	\$ 1,590 (A)	\$ 75,960	\$ 45,576 (L)	\$ 121,536
Sewer Service - Commercial	89,460	0	89,460	53,584 (M)	143,044
Late Fees - Residential	480	0	480	304 (N)	784
Late Fees - Commercial	210	0	210	126 (O)	336
Other Accounts Receivable Adjustments	(948)	104 (B)	(844)	0	(844)
<b>Total Operating Revenues</b>	<b>\$ 163,572</b>	<b>\$ 1,694</b>	<b>\$ 165,266</b>	<b>\$ 99,590</b>	<b>\$ 264,856</b>
<b>Operating Expenses</b>					
Power Purchased for Pumping	\$ 34,112	0	\$ 34,112	0	\$ 34,112
Materials, Supplies and Repairs	78,420	0	78,420	0	78,420
Salaries and Benefits	68,267	(18,130) (C)	50,137	0	50,137
Contractual Services	20,564	(4,024) (D)	16,540	0	16,540
Overhead and Office Rent	1,970	4,470 (E)	6,440	0	6,440
Equipment Rental	1,168	0	1,168	0	1,168
Miscellaneous	835	0	835	0	835
Depreciation	5,900	(1,961) (F)	3,939	0	3,939
Rate Case	0	13,950 (G)	13,950	0	13,950
Taxes Other Than Income	8,172	(1,395) (H)	6,777	822 (P)	7,599
Income Taxes (State and Federal)	0	0 (I)	0	9,479 (Q)	9,479
<b>Total Operating Expenses</b>	<b>\$ 219,408</b>	<b>\$ (7,090)</b>	<b>\$ 212,318</b>	<b>\$ 10,301</b>	<b>\$ 222,619</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (55,836)</b>	<b>\$ 8,784</b>	<b>\$ (47,052)</b>	<b>\$ 89,289</b>	<b>\$ 42,237</b>
Add: Customer Growth	(Note) \$ 0	0	0	0	0
Less: Interest Income	5	(5) (J)	0	0	0
Less: Interest Expense	5,017	(2,543) (K)	2,474	0	2,474
<b>Total Income (Loss) for Return</b>	<b>\$ (60,858)</b>	<b>\$ 11,332</b>	<b>\$ (49,526)</b>	<b>\$ 89,289</b>	<b>\$ 39,763</b>
<b>Operating Margin</b>	<b>-37.21%</b>		<b>-29.97%</b>		<b>15.01%</b>

Note: Per ORS Water/Wastewater Department, Woodland did not have any customer growth during the test year. Therefore, no adjustment was made.

Woodland Utilities, Inc.  
Explanation of Adjustments  
For the Test Year Ended December 31, 2006

Revenues and Expenses	Adj.#	Description	\$ Settlement	\$ Application
<b>Proposed Accounting and Pro forma Adjustments Per Settlement</b>				
(A) Sewer Service - Residential	1	To adjust sewer revenues to reflect actual customer units.	1,590	0
(B) Other Accounts Receivable Adj.	2	To correct Other Accounts Receivable Adjustments to reflect actual test year adjustments.	104	948
(C) Salaries and Benefits	3	To adjust salaries, including only merit based bonuses, to reflect 14% of total salaries to Woodland.	(18,130)	(12,947)
(D) Contractual Services	4	To reclassify legal expenditures more appropriately classified as rate case expenses. (See Adjustment 10.)	(2,024)	(2,024)
	5	To reclassify accounting expenditures more appropriately classified as rate case expenses. (See Adjustment 10.)	(2,000)	(2,000)
		Total Contractual Services	(4,024)	(4,024)
(E) Overhead and Office Rent	6	To adjust office space rent to reflect 14% of total office space rent to Woodland.	(243)	(570)
	7	To include overhead costs for Woodland's office.	2,077	0
	8	To include insurance expense for Woodland's office and plant facilities.	2,636	0
		Total Office Rent and Overhead	4,470	(570)
(F) Depreciation	9	To adjust depreciation on all plant in service to reflect useful lives specified by ORS Water/Wastewater Department.	(1,961)	0
(G) Rate Case	10	To amortize rate case expenses, including legal and accounting noted in Adjustment 5 and 6, of \$41,850 over a three-year period.	13,950	18,508
(H) Taxes Other Than Income	11	To adjust payroll taxes associated with the adjusted salaries.	(1,359)	(436)
	12	To adjust the gross receipts taxes associated with the proposed accounting and pro forma adjustments per the settlement.	(36)	0
		Total Taxes Other Than Income	(1,395)	(436)
(I) Income Taxes (State & Federal)	13	No adjustment to income taxes is proposed.	0	(18,895)
(J) Interest Income	14	To remove interest income for a payroll tax refund.	(5)	(5)
(K) Interest Expense for Operating Margin	15	To synchronize interest expense with the Woodland's rate base.	(2,543)	3,060



Woodland Utilities, Inc.  
Explanation of Adjustments  
For the Test Year Ended December 31, 2006

Revenues and Expenses	Adj.#	Description	\$ Settlement	\$ Application
<u>Proposed Increase Per Settlement</u>				
(L) Sewer Service - Residential	16	To adjust residential sewer revenues to reflect the proposed increase per the settlement using actual customer units.	45,576	85,146
(M) Sewer Service - Commercial	17	To adjust commercial sewer revenues to reflect the proposed increase per the settlement using actual customer units.	53,584	98,406
(N) Late Fees - Residential	18	To adjust residential late fees associated with the proposed increase per the settlement.	304	550
(O) Late Fees - Commercial	19	To adjust commercial late fees associated with the proposed increase per the settlement.	126	231
(P) Taxes Other Than Income	20	To adjust gross receipts taxes associated with the proposed increase per the settlement.	822	0
(Q) Income Taxes (State & Federal)	21	To adjust income taxes associated with the proposed increase per the settlement.	9,479	69,647

Woodland Utilities, Inc.  
Computation of Depreciation Expense  
For the Test Year Ended December 31, 2006

Date Acquired	Description	Amount \$	Service Life years	Depr. Rate %	Depr. Expense \$	Accum. Depreciation \$
05/15/91	Executone Phone	241	6	16.67%	FD	241
03/16/94	Computer Hardware/Software	1,222	6	16.67%	FD	1,222
02/28/88	Land (Not Depreciable)	16,270	NA	NA	NA	NA
05/30/91	40 FT Fence	635	27	3.70%	23	368
05/30/91	85 FT Fence	680	27	3.70%	25	400
01/01/69	Sewer Lines	3,912	27	3.70%	FD	3,912
07/01/71	Chlorine Pit	10,786	7	14.29%	FD	10,786
03/01/77	Aerator	1,374	12	8.33%	FD	1,374
04/01/77	S/S Cable	1,040	10	10.00%	FD	1,040
07/01/77	Flow Monitor	2,726	15	6.67%	FD	2,726
02/20/90	Concrete Slab for WWTP	625	15	6.67%	FD	625
11/15/90	Chlorinator	9,893	7	14.29%	FD	9,893
01/02/91	Pump, Etc.	5,137	12	8.33%	FD	5,137
01/22/91	Power Pole	1,400	15	6.67%	FD	1,400
05/10/91	Water Line	9,798	15	6.67%	FD	9,798
07/24/91	P&S Construction-Equipment & Supplies	10,249	10	10.00%	FD	10,249
10/04/91	10HP Aerator	5,393	12	8.33%	FD	5,393
10/10/91	7 1/2 HP Aerator	1,000	12	8.33%	FD	1,000
04/01/97	Pump Station - Lump Sum	56,870	15	6.67%	3,793	37,930
09/19/98	Gould Pump 2 HP	1,473	15	6.67%	98	882
Totals		<u>140,724</u>			<u>3,939</u>	<u>104,376</u>
Less: Per Book Depreciation Expense					(5,900)	
Depreciation Expense Adjustment					<u>(1,961)</u>	

FD = Fully Depreciated

NA = Not Applicable

Note: Tap fees have been fully amortized since the last rate case. Therefore, no adjustment is made to reduce depreciation. The last tap fee was collected in 1990 and this system has reached its capacity for new taps.

Woodland Utilities, Inc.  
Computation of Income Taxes  
For the Test Year Ended December 31, 2006

	After Proposed Increase Per Settlement
Total Operating Revenues	\$ 264,856
Less: Operating Expenses	(213,140)
Less: Interest Expense	(2,474)
State Taxable Income	49,242
Less: State Income Taxes @ 5%	(2,462)
Federal Taxable Income	46,780
Federal Income Taxes:	
1st \$50,000 @ 15%	7,017
Next \$25,000 @ 25%	0
Next \$25,000 @ 34%	0
Remaining Balance @ 39%	0
Total Federal Income Taxes	7,017
Total State and Federal Income Taxes	9,479
Less: Income Taxes after Accounting and Pro Forma Adjustments	0
Income Taxes Adjustment	\$ 9,479

**EXHIBIT "B" TO SETTLEMENT AGREEMENT**

**DOCKET NO. 2007-61-S**

**PROPOSED RATE SCHEDULE**

WOODLAND UTILITIES, INC.

SCHEDULE OF RATES AND CHARGES

SEWER

Monthly Charges

Residential - charge per  
single-family house:

\$24.00 per unit

Apartment:

\$24.00 per unit

Schools (with Cafeteria, no gym, no showers):

\$1.70 per person\*

\* Based upon SCDHEC's guidelines for unit contributory loadings to wastewater treatment facilities.

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2007-61-S**

IN RE:

Application of Woodland Utilities, Inc.  
for adjustment of rates and charges  
for the provision of sewer service.

**DIRECT TESTIMONY OF**  
**J. DONALD DIAL**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is J. Donald Dial. My business address is 2712 Middleburg Drive,  
#208, Columbia, South Carolina 29204-2415.

**Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am employed as the General Manager of the Applicant, Woodland Utilities, Inc.  
("Woodland" or "the Company"). I have been employed in this position since 2005.  
Prior to that time, I served as President of Woodland for over 30 years.

**Q. WHAT IS YOUR WORK EXPERIENCE AND BACKGROUND WITH WOODLAND?**

A. The majority of my professional career has involved both commercial and  
residential land development. I initially focused on commercial real estate including  
developing several shopping centers. Subsequently, I began developing subdivisions

1 including Woodland Hills and Woodland Hills West in Lexington County. In furtherance  
2 of these projects, I constructed the Woodland wastewater treatment plant and collection  
3 system in 1969 and have overseen and managed the plant operations since that time.  
4

5 **Q. WHAT ARE YOUR JOB RESPONSIBILITIES IN YOUR CURRENT POSITION?**

6 A. My responsibilities include, among other things, handling regulatory and other  
7 governmental matters, overseeing and managing plant operations, negotiating contractual  
8 arrangements, making Company financial decisions, supervising customer issues and  
9 managing personnel matters. Additionally, as the business manager for the Company, I  
10 am involved with vendor and contractor relations and lender negotiation.  
11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

13 A. The purpose of my testimony is to sponsor the Company's application for an  
14 adjustment of certain rates and charges for the provision of water and sewer services.  
15 Also, I will be providing the Commission with an overview of the Company and its  
16 operations, including the area in which it is authorized to provide service, an outline of  
17 the history of the Company, a review of its performance from an operational standpoint, a  
18 description of the facilities used and useful to the Company and some of the expenses  
19 incurred in providing sewer service, and an explanation of the Company's need for rate  
20 relief. Finally, I will discuss the settlement agreement between Woodland and the South  
21 Carolina Office of Regulatory Staff and support its adoption by the Commission.  
22

1 Q. **WHICH AREAS ARE CURRENTLY SERVED BY WOODLAND?**

2 A. Presently, Woodland provides wastewater collection and treatment services in its  
3 authorized service area in Lexington County, South Carolina to four hundred twenty-two  
4 (422) residential customers in the Woodland Hills Subdivision. Additionally, the  
5 Company serves four commercial customers – three apartment complexes with a total of  
6 four hundred fifty (450) units and Seven Oaks Elementary School (“Seven Oaks”).  
7

8 Q. **PLEASE DESCRIBE THE PLANT AND FACILITIES WHICH COMPRISE THE**  
9 **SEWER SYSTEMS IN THE SERVICE AREA?**

10 A. The sewerage system consists of collection and transportation lines, lift stations,  
11 and the Woodland Wastewater Treatment Plant, which is an aerated lagoon system with a  
12 permitted capacity of 0.288 million gallons per day. After treatment, the wastewater is  
13 chlorinated in a chlorine contact chamber. Following de-chlorination, the effluent is  
14 disposed of by way of authorized discharge into the Saluda River.  
15

16 Q. **IS THE COMPANY PROVIDING WASTEWATER TREATMENT SERVICE TO**  
17 **ITS CUSTOMERS IN CONFORMITY WITH ITS PERMIT FROM THE SOUTH**  
18 **CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL**  
19 **CONTROL (“DHEC”)?**

20 A. Yes. As the letter attached to the Application as Exhibit “C” reflects, the  
21 Company holds all necessary permits to operate the facilities. During the test year, the  
22 Company was not cited by DHEC for any major infractions and did not incur any fines.

1 The Company is committed to operating in an environmentally responsible manner which  
2 is a costly undertaking.  
3

4 **Q. WHEN WAS A GENERAL RATE INCREASE LAST REQUESTED BY THE**  
5 **COMPANY?**

6 A. The Company last filed an application for a general rate increase on May 23,  
7 1991. By Order No. 91-1023, dated November 20, 1991, in Docket No. 91-237-S, the  
8 Commission granted the Company rate relief and the increased rates became effective on  
9 November 29, 1991.  
10

11 **Q. WHY IS WOODLAND REQUESTING RATE RELIEF AT THIS TIME?**

12 A. For the test year ended December 31, 2006, Woodland experienced on a per book  
13 basis a (31.21%) operating margin (loss) and had a net loss of (\$60,858). Without rate  
14 relief, Woodland will become unable to meet its financial obligations. Such a scenario  
15 places in jeopardy the Company's ability to continue to provide safe, reliable and  
16 efficient sewer utility services to its customers.  
17

18 **Q. WHAT HAS THE COMPANY'S EXPERIENCE BEEN WITH THE COSTS OF**  
19 **OPERATION SINCE ITS LAST RATE INCREASE?**

20 A. It has been almost sixteen (16) years since the Company's last rate increase and,  
21 in that time, the Company's expenses have increased across the board. The Company has  
22 incurred increased operational expenses such as purchased power, sludge disposal,  
23 employee salaries, chemicals and the like. Other expenses, such as taxes, license fees and



1 assessments have also risen. Additionally, the financial statements and the testimony of  
2 Mr. Donny Burkett clearly reflect that we are operating at a financial loss.  
3

4 **Q. HAS THE COMPANY EXPERIENCED ANY CUSTOMER GROWTH SINCE**  
5 **ITS LAST RATE CASE?**

6 A. No, it has not. As I stated previously, the Woodland treatment plant has a  
7 permitted capacity of 0.288 million gallons per day. The maximum number of taps  
8 capable of being connected to this system was realized several years ago. Therefore, no  
9 additional taps have been added to the system in several years and, under the current  
10 permitted capacity, no additional taps can presently be installed.  
11

12 **Q. WHAT IS A RATE INCREASE DESIGNED TO ACCOMPLISH FOR THE**  
13 **COMPANY?**

14 A. An increase in Woodland's current rates would generate additional revenues that  
15 will allow the Company to move closer to being on a sound financial footing, to allow it  
16 to raise additional capital, if necessary, and to increase its earnings to a more reasonable  
17 level through fair charges to the consumer. Additionally, increased revenue will allow  
18 the Company to continue to make necessary repairs and operate the system in compliance  
19 with regulatory requirements.

1 Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN WOODLAND AND  
2 ALPINE UTILITIES, INC.

3 A. Alpine Utilities, Inc. ("Alpine") is a separate public utility operating in certain  
4 areas of Lexington and Richland Counties and is regulated by the Commission. As with  
5 Woodland, I currently serve as General Manager of Alpine, and previously served as  
6 President for a number of years. In order to operate more efficiently, Woodland and  
7 Alpine share certain costs including salaries and office expenses.  
8

9 Q. HAS THE COMMISSION APPROVED ALLOCATION OF THESE SHARED  
10 EXPENSES BETWEEN WOODLAND AND ALPINE PREVIOUSLY?

11 A. Yes, it has. In its previous rate case for Woodland, and as ordered in its Order  
12 No. 91-1023, the Commission approved an allocation of these expenses in the amount of  
13 14% to Woodland and 86% to Alpine based upon the number of combined customer  
14 units. As with Woodland, Alpine has not experienced any significant customer growth  
15 since the last rate case proceeding. Therefore, the Company would propose to use the  
16 same allocation method and percentages to apportion those shared expenses in this  
17 proceeding as well.  
18

19 Q. HAS THE COMPANY ENTERED INTO A SETTLEMENT AGREEMENT WITH  
20 THE OFFICE OF REGULATORY STAFF?

21 A. Yes. The Company has negotiated with ORS resulting in a resolution of the  
22 issues in this matter.

1 Q. IS THE SETTLEMENT AGREEMENT A REASONABLE MEANS OF  
2 RESOLVING THE ISSUES IN THIS CASE?

3 A. Yes, it is. In the context of the present settlement agreement, which disposes of  
4 all issues in the case, the rates set based on a 15.01% operating margin and the  
5 adjustments proposed by Ms. Tina Seale of ORS allow the Company the opportunity to  
6 earn sufficient revenue to ensure safe and reliable service to its customers at an affordable  
7 rate. The Company believes that the proposed settlement rates fairly distribute the cost to  
8 the consumer of providing those services, while at the same time placing the Company on  
9 a more solid financial footing. Additionally, ORS has stipulated that this agreement  
10 serves the public interest. I believe this is demonstrated by the fact that the Commission  
11 has not received any protests from Woodland customers in this proceeding even though  
12 the rates requested in the application were higher than what has been agreed upon.

13 The Company is committed to continuing to provide quality service in an  
14 environmentally responsible manner. It is our belief that the agreed-upon rates in the  
15 comprehensive settlement agreement are reasonable, fair, responsible, non-discriminatory  
16 and justified when considered as a part of the settlement agreement in its entirety and in  
17 light of the customers' needs, the Company's requirements to meet the customers' needs,  
18 and the Company's commitment to do so in compliance with regulations of this  
19 Commission, DHEC, and other regulatory agencies with jurisdiction over the Company.  
20

21 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

22 A. Yes, it does.

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2007-61-S**

IN RE:

Application of Woodland Utilities, Inc.  
for adjustment of rates and charges  
for the provision of sewer service.

**DIRECT TESTIMONY OF**  
**DONALD H. BURKETT**

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Donald H. Burkett. My business address is 2988 Sunset Boulevard,  
P.O. Box 2044, West Columbia, SC 29171.

**Q. WHERE ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A. I am a Certified Public Accountant with the firm of Burkett, Burkett & Burkett,  
CPAs, P.A. where I currently serve as President.

**Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND YOUR WORK  
EXPERIENCE?**

A. I graduated from the University of South Carolina in 1974 with Bachelor of  
Science Degree in Accounting. From 1974 to 1976, I was a Staff Accountant with  
Cherry, Bekaert & Holland CPAs, a regional CPA firm in Florence, SC. In 1976, I  
founded the firm of Burkett, Burkett, & Burkett, CPAs, P.A.

1 Q. ARE YOU CURRENTLY A MEMBER OF ANY PROFESSIONAL  
2 ASSOCIATIONS?

3 A. I am a member of the American Institute of Certified Public Accountants. I have  
4 also previously served as the President of the South Carolina Association of Certified  
5 Public Accountants and the Central Chapter of Certified Public Accountants.  
6

7 Q. DO YOU SERVE ON ANY STATE BOARDS OR COMMISSIONS?

8 A. Yes. I am currently the vice chairman of the South Carolina Board of  
9 Accountancy, which, among other things, is charged with the licensing and discipline of  
10 certified public accountants.  
11

12 Q. WHAT ARE YOUR RESPONSIBILITIES WITH RESPECT TO WOODLAND  
13 UTILITIES, INC.?

14 A. My responsibilities include advising the Company as to various financial and tax  
15 matters and preparing tax returns and financial statements. I have been providing these  
16 services to Woodland for approximately twenty-five (25) years.  
17

18 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

19 A. The purpose of my testimony is to sponsor the application filed by Woodland  
20 Utilities, Inc. ("Woodland" or "the Company") for an adjustment of certain rates and  
21 charges for the provision of water and sewer services and provide an explanation of the  
22 Company's need for rate relief. Additionally, I will discuss the settlement agreement

1 between Woodland and the South Carolina Office of Regulatory Staff ("ORS") and  
2 support its adoption by the Commission.

3  
4 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

5 A. In addition to the proposed rate schedule, the Application contains financial  
6 statements consisting of a balance sheet, income statements, an asset and depreciation  
7 schedule, revenue calculations under current rates and rates proposed in the application,  
8 and a schedule of current and projected customers. Also included are the most recent  
9 approval letters from South Carolina Department of Health and Environmental Services  
10 ("DHEC") and a sample customer bill form.

11  
12 **Q. PLEASE SUMMARIZE THE RATE CHANGES AS PROPOSED IN THE**  
13 **APPLICATION TO THE COMPANY'S SEWER RATE SCHEDULE.**

14 A. In its application, the Company proposes to increase the full-service sewer charge  
15 from \$15.00 to \$31.50 per month per residence or single-family equivalent ("SFE"). The  
16 monthly fee for a school with a cafeteria, no gym or showers is based upon DHEC  
17 guidelines for unit contributory loadings to wastewater treatment facilities and would  
18 increase from \$1.09 to \$2.46 per person.

19  
20 **Q. MR. BURKETT, WERE THE FINANCIAL STATEMENTS ATTACHED TO THE**  
21 **APPLICATION PREPARED BY YOU OR UNDER YOUR DIRECTION?**

22 A. Yes. They are attached as Exhibit B to the application.

1 **Q. WHAT IS CONTAINED IN THE FINANCIAL STATEMENTS?**

2 A. The test year chosen by the Company is the year ended December 31, 2006. This  
3 was the most recent twelve-month period for which full data was available at the time of  
4 the Company's filing in February, 2007. Schedule A is the Balance Sheet as of  
5 December 31, 2006. At the end of the test year, Woodland had assets of approximately  
6 \$216,859.

7 Schedule B is the Income Statement for the test year which shows that the  
8 Company experienced a per book net income/(loss) of (\$60,858) resulting in an operating  
9 margin (loss) of (31.21%). Additionally, the Company has experienced an increase in per  
10 book operating expenses of over \$80,000 since its last rate case. This level of financial  
11 loss and increase in expenses demonstrates the Company's need for rate relief.

12 Schedule C is the Asset and Depreciation Schedule for Woodland's plant in  
13 service. Schedule D details the proposed revenues under present rates and the rates  
14 originally requested in the application and also provides details as to the Company's  
15 commercial customers. Schedule E provides information regarding the current and  
16 projected customers served by Woodland.

17  
18 **Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE**  
19 **THAT THE COMMISSION EMPLOY IN THIS CASE?**

20 A. The Company proposes that its rates be determined utilizing operating margin  
21 methodology.

1 Q. ARE YOU AWARE THAT THE COMPANY HAS ENTERED INTO A  
2 SETTLEMENT AGREEMENT WITH THE OFFICE OF REGULATORY STAFF  
3 ("ORS") IN THIS PROCEEDING?

4 A. Yes. It is my understanding that, as part of a comprehensive settlement of the  
5 issues in this matter, Woodland and ORS have agreed to certain accounting adjustments  
6 that will allow the Company the opportunity to earn an additional \$99,590 in annual  
7 revenue and the resulting operating margin would be 15.01%. This would yield rates to  
8 the customers in the amount of \$24 for each residence and apartment, and \$1.70 per  
9 person for schools.

10

11 Q. DO YOU BELIEVE THE RATES CONSENTED TO IN THE SETTLEMENT  
12 AGREEMENT WILL PROVIDE THE COMPANY SUFFICIENT ADDITIONAL  
13 REVENUES AND IS REASONABLE?

14 A. In the context of a comprehensive settlement such as this, I believe that the  
15 agreed-upon rates will allow Woodland the opportunity to earn sufficient revenue to  
16 ensure safe and reliable service to its customers at an affordable rate. The Company  
17 believes that the proposed settlement rates fairly distribute the cost to the consumer of  
18 providing those services, while at the same time placing the utility on a more solid  
19 financial footing.

20 Further, it is my understanding that one of the statutory duties of ORS is to  
21 facilitate the resolution of disputed issues involving matters within the jurisdiction of the  
22 Commission. I think it is incumbent upon the other parties in cases before the



1 Commission, which in this proceeding is only Woodland, to work with ORS in good faith  
2 in an attempt to reach a settlement. I believe that the Settlement Agreement reflects a  
3 good faith effort on the part of ORS and Woodland to meet their respective obligations in  
4 that regard. Finally, the settlement is beneficial to the Company and the customers in that  
5 it brings this matter to an end without delay and the uncertainty of further proceedings  
6 which, in turn, permits the Company to focus upon the continued improvement and  
7 expansion of its facilities and services for the benefit of its customers which is consistent  
8 with the public interest. Additionally, having had experience with deciding contested  
9 cases before the Board of Accountancy, I understand well the benefit of administrative  
10 economy to busy agencies such as this Commission and believe that the settlement is  
11 reasonable for that reason as well.

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13 **A.** Yes, it does.

**THE OFFICE OF REGULATORY STAFF  
SETTLEMENT TESTIMONY AND  
EXHIBITS  
OF  
CHRISTINA L. SEALE**



**MAY 23, 2007  
DOCKET NO. 2007-61-S**

**APPLICATION OF WOODLAND UTILITIES,  
INCORPORATED FOR ADJUSTMENT OF RATES  
AND CHARGES FOR THE PROVISION OF  
SEWER SERVICE**

**SETTLEMENT TESTIMONY OF CHRISTINA L. SEALE**

**FOR**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2007-61-S**

**IN RE: WOODLAND UTILITIES, INC.**

**Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

**A.** My name is Christina L. Seale. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff ("ORS") as an Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.**

**A.** I received a Bachelor of Science in Accounting with a minor in Computer Systems and Applications from Columbia College in 2000. From 2001 to 2004, I was employed by the South Carolina Office of the State Auditor. In that capacity, I performed agreed-upon procedures engagements and statewide single audits of various state agencies in South Carolina. In January 2005, I began my employment with ORS where I have been auditing utility companies, mainly water and wastewater utilities.

**Q. WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY INVOLVING WOODLAND UTILITIES, INC.?**

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Post Office Box 11263, Columbia, SC 29211**

1 A. The purpose of my settlement testimony is to set forth the adjustments agreed upon  
2 in the Settlement Agreement ("the Settlement") between ORS and Woodland  
3 Utilities, Inc. ("Woodland" or "the Company"), collectively referred to as "Parties"  
4 in this docket.

5 Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR  
6 SETTLEMENT TESTIMONY.

7 A. I have attached the Report of the Audit Department ("Audit Report") related to  
8 Woodland's application for a rate increase, Docket No. 2007-61-S. The contents of  
9 the Audit Report were either prepared by me or were prepared under my direction  
10 and supervision in compliance with recognized accounting and regulatory procedures  
11 for water and wastewater utility rate cases.

12 Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.

13 A. As outlined in the index of the Audit Report, pages 1-3 contain an analysis of  
14 Woodland and its application. The remaining pages consist of exhibits which present  
15 various aspects of Woodland's operations, its financial position and the adjustments  
16 agreed upon in the Settlement. The majority of my testimony will refer to Settlement  
17 Audit Exhibit CLS-1 - Operating Experience and Operating Margin, as shown on  
18 page 4 of the Audit Report.

19 Q. PLEASE DESCRIBE THE FORMAT OF SETTLEMENT AUDIT EXHIBIT  
20 CLS-1 AND ELABORATE ON THE CALCULATIONS.

21 A. Column (1) shows the per application figures computed by Woodland as of  
22 December 31, 2006. The net operating loss was comprised of total operating

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1 revenues less total operating expenses. The net operating loss less interest income  
2 and interest expense resulted in the total loss for return. The operating margin was  
3 computed by dividing the total loss for return by the total operating revenues.

4 Column (2) shows the proposed accounting and pro forma adjustments per the  
5 Settlement designed to normalize Woodland's per application figures. A description  
6 of each adjustment is contained in Settlement Audit Exhibit CLS-2.

7 Column (3) presents the calculation of a normalized test year for Woodland by  
8 adding columns (1) and (2).

9 Column (4) shows the calculation of the impact on operating revenues and expenses  
10 of the proposed Settlement. A description of each adjustment is contained in  
11 Settlement Audit Exhibit CLS-2.

12 Column (5) presents the calculation of operating experience and operating margin  
13 after the increase proposed in the Settlement, by adding columns (3) and (4).

14 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN SETTLEMENT AUDIT**  
15 **EXHIBIT CLS-2.**

16 **A.** The following adjustment numbers correspond with the numbers listed under Adj. #  
17 in this exhibit:

18 Adjustment 1 - ORS Water/Wastewater Department and Woodland propose to adjust  
19 sewer service revenues for residential customers. The service revenues were  
20 calculated using current customers as of December 31, 2006 and the present rates.  
21 Details of this adjustment are shown on Exhibit WJM-3 of ORS Water/Wastewater  
22 Program Manager, Willie Morgan.

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1     Adjustment 2 - ORS Water/Wastewater Department and Woodland propose to  
2     correct Other Accounts Receivable Adjustments by adding \$104 to the test year  
3     amount to reflect actual test year adjustments of (\$844).

4     Adjustment 3 - ORS and Woodland propose to adjust salaries to reflect the amount  
5     properly allocable to Woodland. Total salaries of Woodland and its affiliate  
6     consisted of salaries, bonuses and other benefits paid to the officers and employees  
7     shared between these two companies. In the determination of total salaries for  
8     allocation, the Parties agreed to include only salaries and performance related  
9     bonuses. The Parties considered salaries of \$311,522 appropriate for inclusion in the  
10    calculation of total income for return. ORS Water/Wastewater Department and the  
11    Company agreed that 14% of this total is properly allocable to Woodland. The 14%  
12    was calculated by dividing Woodland's total customer units of 897 by the total  
13    customer units of Woodland and its affiliate of 6,415 as of December 31, 2006. The  
14    Parties calculated allocable wages of \$43,617. From this amount the per application  
15    wages of \$61,747 were subtracted for an adjustment of (\$18,130).

16   Adjustment 4 and 5 - ORS and Woodland propose to reclassify legal and accounting  
17   expenditures of (\$2,024) and (\$2,000), respectively, from Contractual Services  
18   expenses to Rate Case expenses. (See Adjustment 10.)

19   Adjustment 6 - ORS and Woodland propose to adjust office space rent for Woodland  
20   to 14% of the total office space rent for Woodland and its affiliate. Total office space  
21   rent of Woodland and its affiliate of \$12,339, which included the office space rent  
22   and additional rent per Woodland's lease contract, and the 14% allocation, described

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1 in Adjustment 3, was used to compute Woodland's office space rent for the test year  
2 of \$1,727. The per application figures of \$1,970 were then subtracted from \$1,727  
3 for an adjustment of (\$243).

4 Adjustment 7 - The Parties propose to include 14% of the total office overhead costs  
5 for Woodland and its affiliate in Woodland's test year expenses. The total office  
6 overhead costs were paid by Woodland's affiliate. Total overhead costs of  
7 Woodland and its affiliate of \$14,837, which is comprised of costs for postage,  
8 shared office equipment repairs, office supplies, office security system and office  
9 telephone, and the 14% allocation, described in Adjustment 3, were used for an  
10 adjustment of \$2,077.

11 Adjustment 8 - ORS and Woodland propose to include insurance expense for  
12 Woodland's office and plant facilities of \$2,636. The total insurance expense was  
13 paid by Woodland's affiliate.

14 Adjustment 9 - ORS and Woodland propose to annualize depreciation on all plant in  
15 service as of December 31, 2006 to reflect useful lives specified by ORS  
16 Water/Wastewater Department. The total calculated depreciation expense of \$3,939  
17 was reduced by the per application depreciation expense of \$5,900 for a total  
18 adjustment of (\$1,961) as shown on Settlement Audit Exhibit CLS-3 - Computation  
19 of Depreciation Expense.

20 Adjustment 10 - ORS and Woodland propose to include amortized rate case  
21 expenses for the test year, which include legal and accounting expenditures noted in  
22 Adjustment 4 and 5. Actual current rate case expenses included pursuant to the

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1 Settlement are \$41,850 amortized over a three-year period for an adjustment of  
2 \$13,950.

3 Adjustment 11 - ORS and Woodland propose to adjust payroll taxes associated  
4 with the adjusted salaries. Total payroll taxes of \$20,945 were calculated for  
5 Woodland and its affiliate, consisting of FICA, FUTA, and SUTA taxes. Then the  
6 14% allocation, described in Adjustment 3, was used to calculate payroll taxes  
7 allocable to Woodland for the test year of \$2,932. The per application amount of  
8 \$4,291 was then subtracted, resulting in an adjustment of (\$1,359).

9 Adjustment 12 - The Parties propose to adjust the gross receipts taxes associated  
10 with the revenues after accounting and pro forma adjustments per the Settlement.  
11 Total gross revenues of \$165,266 after accounting and pro forma adjustments were  
12 multiplied by the Public Service Commission ("PSC" or "Commission") and ORS  
13 factor of .0082524 for an amount of \$1,364 less the per book amount of \$1,400 for  
14 an adjustment of (\$36).

15 Adjustment 13 - The Parties propose no adjustment to income taxes after accounting  
16 and pro forma adjustments per the Settlement.

17 Adjustment 14 - ORS and Woodland propose to remove interest income of (\$5) on a  
18 payroll tax refund.

19 Adjustment 15 - ORS and Woodland propose to adjust interest expense for the test  
20 year. The Parties agree to synchronize interest expense with the Company's  
21 investment in rate base. This method prevents a utility from recovering interest on  
22 funds borrowed for cash flow purposes. Rate base of \$61,548 was computed by

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1 allocating 43.46% or \$26,749 to long-term debt. The capital structure was allocated  
2 43.46% to debt and 56.54% to equity using total debt of \$87,321 and total equity of  
3 \$113,604 as of December 31, 2006. The embedded cost rate of 9.25% was  
4 multiplied by the long-term debt portion of \$26,749 for total allowable interest  
5 expense of \$2,474. The per application amount of \$5,017 was then subtracted,  
6 resulting in an adjustment of (\$2,543).

7 Adjustment 16 and 17 - Pursuant to the Settlement Agreement, the parties propose a  
8 rate increase which will produce additional service revenues of \$99,160 consisting of  
9 residential sewer revenues of \$45,576 and commercial sewer revenues of \$53,584.  
10 Details of these adjustments are shown on Exhibit WJM-3 of ORS  
11 Water/Wastewater Program Manager, Willie Morgan.

12 Adjustment 18 and 19 - The parties propose to adjust residential late fees by \$304  
13 and commercial late fees by \$126 as a result of the proposed rate increase per the  
14 Settlement.

15 Adjustment 20 - The parties propose to adjust gross receipts taxes associated with the  
16 proposed rate increase per the Settlement. The total gross revenues for the proposed  
17 increase of \$99,590 were multiplied by the PSC and ORS factor of .0082524 for an  
18 adjustment of \$822.

19 Adjustment 21 - ORS and Woodland propose to adjust income taxes associated with  
20 the proposed rate increase per the Settlement. See Audit Exhibit CLS-4.

21 Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.

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- 1 A. Settlement Audit Exhibit CLS-3 shows the computation of the depreciation expense  
2 adjustment. Settlement Audit Exhibit CLS-4 shows the computation of the income  
3 tax adjustment.
- 4 Q. DOES WOODLAND MAINTAIN ITS BOOKS AND RECORDS IN  
5 ACCORDANCE WITH PSC RULES AND REGULATIONS?
- 6 A. No. Woodland does not utilize the National Association of Regulatory Utility  
7 Commissioners ("NARUC") Uniform System of Accounts for Wastewater Utilities.  
8 Woodland has agreed pursuant to the Settlement Agreement to keep its books and  
9 records in accordance with the NARUC Uniform System of Accounts for  
10 Wastewater Utilities. Maintenance of such books and records will allow the utility  
11 to identify and provide the required information to the regulatory bodies in order to  
12 analyze and verify the relevant facts thereto.
- 13 Q. WHAT IS THE RESULTING OPERATING MARGIN COMPUTED BY ORS  
14 IN THIS CASE?
- 15 A. Based on the rates proposed per the Settlement, ORS computed an Operating Margin  
16 of 15.01%, as shown on Settlement Audit Exhibit CLS-1.
- 17 Q. DOES THIS CONCLUDE YOUR SETTLEMENT TESTIMONY?
- 18 A. Yes.

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**REPORT OF THE AUDIT DEPARTMENT**  
**THE OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2007-61-S**  
**WOODLAND UTILITIES, INC.**

**REPORT OF THE AUDIT DEPARTMENT  
THE OFFICE OF REGULATORY STAFF  
DOCKET NO. 2007-61-S  
WOODLAND UTILITIES, INC.**

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REPORT OF THE AUDIT DEPARTMENT  
THE OFFICE OF REGULATORY STAFF  
DOCKET NO. 2007-61-S  
WOODLAND UTILITIES, INC.

SYNOPSIS

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Amount Applicant Requested:

	<u>Settlement</u>	<u>Application</u>
Sewer Service-----	\$99,160	\$183,552
Late Fees-----	<u>\$430</u>	<u>\$781</u>
Total Operating Revenues -----	<u>\$99,590</u>	<u>\$184,333</u>

Operating Margin:

	<u>Settlement</u>	<u>Application</u>
After Proposed Increase Per Settlement-----	15.01%	20.09%

**REPORT OF THE AUDIT DEPARTMENT  
THE OFFICE OF REGULATORY STAFF  
DOCKET NO. 2007-61-S  
WOODLAND UTILITIES, INC.**

**ANALYSIS**

The South Carolina Office of Regulatory Staff ("ORS") Audit Department examined the application of Woodland Utilities, Inc. ("Woodland") along with certain Woodland accounting records relative to its application requesting to increase certain rates and charges as shown in Docket No. 2007-61-S.

Woodland is a wastewater utility operating in the State of South Carolina. It furnishes sewer service to residential and commercial customers in Lexington County. Woodland's office is located at 2712 Middleburg Drive, Suite 208 in Columbia, South Carolina.

The ORS Audit Department respectfully submits the following results of its examination:

1. Woodland filed an application on February 16, 2007 for the adjustment of rates and charges for the provision of sewer service.
2. This matter is set for public hearing beginning on Thursday, June 14, 2007 at 10:30 a.m.
3. Woodland's application uses a test year ending December 31, 2006.
4. In this application, Woodland requested a revenue increase of \$184,333. Based on the proposed accounting and pro forma adjustments per the Settlement Agreement ("the Settlement"), the proposed rate increase would produce additional revenues of \$99,590.
5. The following exhibits are related to the proposed Settlement Agreement regarding Woodland's application:

**SETTLEMENT AUDIT EXHIBIT CLS-1: OPERATING EXPERIENCE AND  
OPERATING MARGIN**

This exhibit shows Woodland's operating experience and operating margin for sewer operations for the year ended December 31, 2006. The exhibit's format is designed to reflect per application figures and the proposed accounting and pro forma adjustments per the Settlement necessary to normalize the results of Woodland's test year operations.

Woodland computed total operating revenues of \$163,572 and total operating expenses of \$219,408 resulting in a net operating loss of (\$55,836). Using the net operating loss of (\$55,836) less interest income of \$5 and interest expense of \$5,017, Woodland computed total loss for return of (\$60,858). The operating margin of (37.21%) was computed by dividing the total loss for return of (\$60,858) by total operating revenues of \$163,572. The net effect of the proposed accounting and pro forma adjustments per the Settlement decreased total loss for return to (\$49,526) resulting in an operating margin of (29.97%).

The proposed rates per the Settlement would produce additional revenues of \$99,590 consisting of residential sewer revenues of \$45,576, commercial sewer revenues of \$53,584, residential late fees of \$304 and commercial late fees of \$126. Gross receipts taxes and income taxes were also adjusted based on these additional gross revenues.

After the proposed increase per the Settlement, total operating revenues would amount to \$264,856 and total operating expenses would amount to \$222,619, producing net operating income of \$42,237. The net operating income of \$42,237 less interest expense of \$2,474 resulted in total income for return of \$39,763. Using the total income for return of \$39,763 divided by total operating revenues of \$264,856, an operating margin of 15.01% was computed after the proposed increase per the Settlement.

**SETTLEMENT AUDIT EXHIBIT CLS-2: EXPLANATION OF ADJUSTMENTS**

This exhibit shows the proposed accounting and pro forma adjustments made to normalize Woodland's operations and the proposed increase adjustments per the settlement. For comparative purposes, adjustments agreed to in the Settlement and the adjustments proposed by Woodland in its application are both presented in this exhibit.

**SETTLEMENT AUDIT EXHIBIT CLS-3: COMPUTATION OF DEPRECIATION  
EXPENSE**

This exhibit shows the computations of the depreciation expense adjustment. Depreciation expense was annualized by using useful lives supplied by the ORS Water/Wastewater Department.

**SETTLEMENT AUDIT EXHIBIT CLS-4: COMPUTATION OF INCOME TAXES**

This exhibit shows the computation of state and federal income taxes based on taxable income after the proposed increase per the Settlement. A state tax rate of 5% and the federal tax rates of 15%, 25%, 34% and 39% were used to calculate the income taxes.



SETTLEMENT AUDIT EXHIBIT CLS-1

Woodland Utilities, Inc.  
Operating Experience and Operating Margin  
For the Test Year Ended December 31, 2006

	(1) Per Application	(2) Proposed Accounting & Pro forma Adjustments Per Settlement	(3) After Accounting & Pro forma Adjustments Per Settlement	(4) Proposed Increase Per Settlement	(5) After Proposed Increase Per Settlement
<b>Operating Revenues</b>					
Sewer Service - Residential	\$ 74,370	\$ 1,590 (A)	\$ 75,960	\$ 45,576 (L)	\$ 121,536
Sewer Service - Commercial	89,460	0	89,460	53,584 (M)	143,044
Late Fees - Residential	480	0	480	304 (N)	784
Late Fees - Commercial	210	0	210	126 (O)	336
Other Accounts Receivable Adjustments	(948)	104 (B)	(844)	0	(844)
<b>Total Operating Revenues</b>	<b>\$ 163,572</b>	<b>\$ 1,694</b>	<b>\$ 165,266</b>	<b>\$ 99,590</b>	<b>\$ 264,856</b>
<b>Operating Expenses</b>					
Power Purchased for Pumping	\$ 34,112	\$ 0	\$ 34,112	\$ 0	\$ 34,112
Materials, Supplies and Repairs	78,420	0	78,420	0	78,420
Salaries and Benefits	68,267	(18,130) (C)	50,137	0	50,137
Contractual Services	20,564	(4,024) (D)	16,540	0	16,540
Overhead and Office Rent	1,970	4,470 (E)	6,440	0	6,440
Equipment Rental	1,168	0	1,168	0	1,168
Miscellaneous	835	0	835	0	835
Depreciation	5,900	(1,961) (F)	3,939	0	3,939
Rate Case	0	13,950 (G)	13,950	0	13,950
Taxes Other Than Income	8,172	(1,395) (H)	6,777	822 (P)	7,599
Income Taxes (State and Federal)	0	0 (I)	0	9,479 (Q)	9,479
<b>Total Operating Expenses</b>	<b>\$ 219,408</b>	<b>\$ (7,090)</b>	<b>\$ 212,318</b>	<b>\$ 10,301</b>	<b>\$ 222,619</b>
<b>Net Operating Income (Loss)</b>	<b>\$ (55,836)</b>	<b>\$ 8,784</b>	<b>\$ (47,052)</b>	<b>\$ 89,289</b>	<b>\$ 42,237</b>
Add: Customer Growth	(Note) \$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Less: Interest Income	5	(5) (J)	0	0	0
Less: Interest Expense	5,017	(2,543) (K)	2,474	0	2,474
<b>Total Income (Loss) for Return</b>	<b>\$ (60,858)</b>	<b>\$ 11,332</b>	<b>\$ (49,526)</b>	<b>\$ 89,289</b>	<b>\$ 39,763</b>
<b>Operating Margin</b>	<b>-37.21%</b>		<b>-29.97%</b>		<b>15.01%</b>

Note: Per ORS Water/Wastewater Department, Woodland did not have any customer growth during the test year. Therefore, no adjustment was made.

SETTLEMENT AUDIT EXHIBIT CLS-2  
1 of 2

Woodland Utilities, Inc.  
Explanation of Adjustments  
For the Test Year Ended December 31, 2006

Revenues and Expenses	Adj.#	Description	\$ Settlement	\$ Application
<b>Proposed Accounting and Pro forma Adjustments Per Settlement</b>				
(A) Sewer Service - Residential	1	To adjust sewer revenues to reflect actual customer units.	1,590	0
(B) Other Accounts Receivable Adj.	2	To correct Other Accounts Receivable Adjustments to reflect actual test year adjustments.	104	948
(C) Salaries and Benefits	3	To adjust salaries, including only merit based bonuses, to reflect 14% of total salaries to Woodland.	(18,130)	(12,947)
(D) Contractual Services	4	To reclassify legal expenditures more appropriately classified as rate case expenses. (See Adjustment 10.)	(2,024)	(2,024)
	5	To reclassify accounting expenditures more appropriately classified as rate case expenses. (See Adjustment 10.)	(2,000)	(2,000)
		Total Contractual Services	(4,024)	(4,024)
(E) Overhead and Office Rent	6	To adjust office space rent to reflect 14% of total office space rent to Woodland.	(243)	(570)
	7	To include overhead costs for Woodland's office.	2,077	0
	8	To include insurance expense for Woodland's office and plant facilities.	2,636	0
		Total Office Rent and Overhead	4,470	(570)
(F) Depreciation	9	To adjust depreciation on all plant in service to reflect useful lives specified by ORS Water/Wastewater Department.	(1,961)	0
(G) Rate Case	10	To amortize rate case expenses, including legal and accounting noted in Adjustment 5 and 6, of \$41,850 over a three-year period.	13,950	18,508
(H) Taxes Other Than Income	11	To adjust payroll taxes associated with the adjusted salaries.	(1,359)	(436)
	12	To adjust the gross receipts taxes associated with the proposed accounting and pro forma adjustments per the settlement.	(36)	0
		Total Taxes Other Than Income	(1,395)	(436)
(I) Income Taxes (State & Federal)	13	No adjustment to income taxes is proposed.	0	(18,895)
(J) Interest Income	14	To remove interest income for a payroll tax refund.	(5)	(5)
(K) Interest Expense for Operating Margin	15	To synchronize interest expense with the Woodland's rate base.	(2,543)	3,060

SETTLEMENT AUDIT EXHIBIT CLS-2  
2 of 2

Woodland Utilities, Inc.  
Explanation of Adjustments  
For the Test Year Ended December 31, 2006

Revenues and Expenses	Adj.#	Description	\$ Settlement	\$ Application
<b>Proposed Increase Per Settlement</b>				
(L) Sewer Service - Residential	16	To adjust residential sewer revenues to reflect the proposed increase per the settlement using actual customer units.	45,576	85,146
(M) Sewer Service - Commercial	17	To adjust commercial sewer revenues to reflect the proposed increase per the settlement using actual customer units.	53,584	98,406
(N) Late Fees - Residential	18	To adjust residential late fees associated with the proposed increase per the settlement.	304	550
(O) Late Fees - Commercial	19	To adjust commercial late fees associated with the proposed increase per the settlement.	126	231
(P) Taxes Other Than Income	20	To adjust gross receipts taxes associated with the proposed increase per the settlement.	822	0
(Q) Income Taxes (State & Federal)	21	To adjust income taxes associated with the proposed increase per the settlement.	9,479	69,647

SETTLEMENT AUDIT EXHIBIT CLS-3

Woodland Utilities, Inc.  
Computation of Depreciation Expense  
For the Test Year Ended December 31, 2006

Date Acquired	Description	Amount \$	Service Life years	Depr. Rate %	Depr. Expense \$	Accum. Depreciation \$
05/15/91	Executone Phone	241	6	16.67%	FD	241
03/16/94	Computer Hardware/Software	1,222	6	16.67%	FD	1,222
02/28/88	Land (Not Depreciable)	16,270	NA	NA	NA	NA
05/30/91	40 FT Fence	635	27	3.70%	23	368
05/30/91	85 FT Fence	680	27	3.70%	25	400
01/01/69	Sewer Lines	3,912	27	3.70%	FD	3,912
07/01/71	Chlorine Pit	10,786	7	14.29%	FD	10,786
03/01/77	Aerator	1,374	12	8.33%	FD	1,374
04/01/77	S/S Cable	1,040	10	10.00%	FD	1,040
07/01/77	Flow Monitor	2,726	15	6.67%	FD	2,726
02/20/90	Concrete Slab for WWTP	625	15	6.67%	FD	625
11/15/90	Chlorinator	9,893	7	14.29%	FD	9,893
01/02/91	Pump, Etc.	5,137	12	8.33%	FD	5,137
01/22/91	Power Pole	1,400	15	6.67%	FD	1,400
05/10/91	Water Line	9,798	15	6.67%	FD	9,798
07/24/91	P&S Construction-Equipment & Supplies	10,249	10	10.00%	FD	10,249
10/04/91	10HP Aerator	5,393	12	8.33%	FD	5,393
10/10/91	7 1/2 HP Aerator	1,000	12	8.33%	FD	1,000
04/01/97	Pump Station - Lump Sum	56,870	15	6.67%	3,793	37,930
09/19/98	Goulde Pump 2 HP	1,473	15	6.67%	98	882
Totals		<u>140,724</u>			<u>3,939</u>	<u>104,376</u>
Less: Per Book Depreciation Expense					(5,900)	
Depreciation Expense Adjustment					<u>(1,961)</u>	

FD = Fully Depreciated  
NA = Not Applicable

Note: Tap fees have been fully amortized since the last rate case. Therefore, no adjustment is made to reduce depreciation. The last tap fee was collected in 1990 and this system has reached its capacity for new taps.

SETTLEMENT AUDIT EXHIBIT CLS-4

Woodland Utilities, Inc.  
Computation of Income Taxes  
For the Test Year Ended December 31, 2006

	After Proposed Increase Per Settlement
Total Operating Revenues	
Less: Operating Expenses	\$ 264,856
Less: Interest Expense	(213,140)
State Taxable Income	<u>(2,474)</u>
Less: State Income Taxes @ 5%	49,242
Federal Taxable Income	<u>(2,462)</u>
Federal Income Taxes:	46,780
1st \$50,000 @ 15%	
Next \$25,000 @ 25%	7,017
Next \$25,000 @ 34%	0
Remaining Balance @ 39%	0
Total Federal Income Taxes	<u>0</u>
Total State and Federal Income Taxes	7,017
Less: Income Taxes after Accounting and Pro Forma Adjustments	9,479
Income Taxes Adjustment	<u>0</u>
	<u>\$ 9,479</u>

**THE OFFICE OF REGULATORY STAFF  
SETTLEMENT TESTIMONY AND EXHIBITS  
OF  
WILLIE J. MORGAN**



**DOCKET NO. 2007-61-S**

**Application of Woodland Utilities, Inc. for  
Adjustment of Rates and Charges for the  
Provision of Sewer Service**

**SETTLEMENT TESTIMONY OF WILLIE J. MORGAN****FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2007-61-S****IN RE: WOODLAND UTILITIES, INC.**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Willie J. Morgan, and my business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the state of South Carolina, Office of Regulatory Staff ("ORS") as the Program Manager for the Water and Wastewater Department.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Science Degree in Engineering from the University of South Carolina in 1985 and a Master of Arts Degree in Management from Webster University in 2000. I am a licensed Professional Engineer registered in the State of South Carolina. My professional affiliations include membership in the American Water Works Association ("AWWA"), the South Carolina Section of the American Water Works Association ("SC-AWWA") and the National

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**THE OFFICE OF REGULATORY STAFF**  
1441 Main Street, Suite 300, Columbia, SC 29201  
Post Office Box 11263, Columbia, SC 29211

1 Society of Professional Engineers ("NSPE"). After graduating from the  
2 University of South Carolina, I was employed by the South Carolina Department  
3 of Health and Environmental Control ("DHEC") as an Environmental Engineer  
4 Associate. Later, I was promoted to the position of Permitting Liaison where I  
5 assisted industries and the public with environmental permitting requirements in  
6 the state of South Carolina. This assistance included providing information about  
7 air quality, solid and hazardous waste management, and water and wastewater  
8 management requirements. I was employed by DHEC for nineteen years. On  
9 October 2, 2004, I joined the ORS as the Program Manager for the Water and  
10 Wastewater Department.

11 **Q. DO YOU HAVE ANY PUBLICATIONS TO YOUR CREDIT?**

12 **A.** Yes.

13 **Q. WHAT ARE THE NAMES OF SOME OF THOSE PUBLICATIONS?**

14 **A.** While at DHEC, I published several editions of a document called "A General  
15 Guide to Environmental Permitting in South Carolina." This guide is a summary  
16 of the various environmental requirements that affect businesses and industries  
17 located or operating within the State of South Carolina. Another publication I  
18 authored includes a document called "Environmental Protection Fees." This  
19 document is a summary of the fees charged for environmental programs. It  
20 includes detailed information about the fees collected by water utilities to  
21 implement the Safe Drinking Water Act Regulatory Program, fees collected from  
22 wastewater utilities to manage the National Pollution Discharge Elimination



1 System ("NPDES") Program, and fees collected for construction activities  
2 associated with water and wastewater utilities.

3 In March, 2007, I authored and presented a paper at the annual South Carolina  
4 Environmental Conference called "Rate Setting for Private and Investor Owned  
5 Public Utilities." The purpose of the paper and presentation was to discuss the  
6 distinct roles of the Public Service Commission of South Carolina  
7 ("Commission") and ORS concerning rate adjustments for private or investor  
8 owned utilities in South Carolina.

9 **Q. CAN YOU DESCRIBE YOUR RESPONSIBILITIES AS THE PROGRAM**  
10 **MANAGER FOR WATER AND WASTEWATER WITH THE OFFICE OF**  
11 **REGULATORY STAFF?**

12 A. Yes. My responsibilities include performing analyses and providing testimony in  
13 formal proceedings before the Commission regarding rate base determinations,  
14 rate schedules, general terms and conditions, cost of service and depreciation  
15 studies, and compliance with applicable rules and regulations. In addition, my  
16 responsibilities include monitoring federal activity to determine its impact on state  
17 regulations and policies.

18 **Q. HAVE YOU COMPLETED ADDITIONAL TRAINING AND/OR**  
19 **EDUCATION SINCE YOUR GRADUATION FROM THE UNIVERSITY**  
20 **OF SOUTH CAROLINA?**

21 A. I have completed courses in preparation for the professional engineering  
22 examination as well as various review and continuing professional education  
23 courses. The continuing professional education courses include attendance at the

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1 2004 Eastern National Association of Regulatory Utility Commissioners  
2 ("NARUC") Utility Rate School: Basics of Ratesetting, the 2006 SC-AWWA  
3 Annual Meeting, 2006 Regulating Small Water Utilities Workshop, and other  
4 water and wastewater facility specific courses.

5 **Q. HOW LONG HAVE YOU PROVIDED REGULATORY OVERSIGHT**  
6 **AND ENGINEERING SERVICES TO WATER AND WASTEWATER**  
7 **FACILITIES?**

8 A. I have over twenty-one years of regulatory compliance experience providing  
9 assistance and regulatory oversight for water and wastewater facilities and  
10 services.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
12 **PROCEEDING?**

13 A. The purpose of my testimony is to provide a brief overview of the Settlement  
14 Agreement reached between ORS and Woodland Utilities, Inc. ("Woodland") in  
15 this proceeding and to explain why this Settlement Agreement is in the public  
16 interest. Specifically, I will focus on Woodland's compliance with the  
17 Commission's rules and regulations, ORS's Business Audit of Woodland's  
18 wastewater system, test-year revenue and proposed Settlement Agreement  
19 revenue, and performance bond requirements.

20 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**  
21 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

22 A. Yes, my testimony and the attached exhibits detail ORS's findings and  
23 recommendations.

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THE OFFICE OF REGULATORY STAFF  
1441 Main Street, Suite 300, Columbia, SC 29201  
Post Office Box 11263, Columbia, SC 29211

1 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**  
2 **TESTIMONY AND EXHIBITS.**

3 A. I used ORS Business Audit results, information provided by Woodland in its  
4 application and additional information provided by Woodland during the course  
5 of our investigation. I also reviewed Woodland's financial statements and  
6 performance bond documents submitted to the Commission.

7 **Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATIONS, SERVICE**  
8 **TYPES AND CUSTOMER BASE SERVED BY WOODLAND.**

9 A. Woodland is a public utility providing wastewater collection/treatment service in  
10 portions of Lexington County. Woodland is currently a NARUC Class C  
11 wastewater utility according to sewer revenues reported on its application for the  
12 test year ending December 31, 2006. According to Woodland's application for  
13 the test year ending December 31, 2006, wastewater collection and treatment  
14 services were provided to 422 residential customers, 2 apartment complexes (450  
15 apartment customers - billed as two commercial customers), and a school with  
16 659 persons.

17 **Q. PLEASE EXPLAIN EXHIBIT WJM-1 OF YOUR REPORT.**

18 A. Exhibit WJM-1, consisting of three pages, provides a summary of the Business  
19 Office Compliance Review completed by ORS. During the Business Office  
20 Compliance Review, ORS reviewed Woodland's office records to determine  
21 compliance with Commission rules and regulations.

22 **Q. PLEASE EXPLAIN EXHIBIT WJM-2 OF YOUR REPORT.**

1 A. Exhibit WJM-2 is a summary of the wastewater collection and treatment system  
2 inspected by ORS on March 30, 2007. Based on this review of the system,  
3 Woodland is responsive to the requirements of DHEC and other federal  
4 environmental requirements that are applicable to the operation of a wastewater  
5 collection and treatment system. When problems are identified, Woodland is  
6 addressing the issues in a timely manner.

7 **Q. EXPLAIN THE TEST YEAR REVENUE INFORMATION COMPUTED**  
8 **BY ORS FOR WOODLAND.**

9 A. Exhibit WJM-3 summarizes Woodland's service revenues for the test year ending  
10 December 31, 2006. ORS used Woodland's current and proposed Settlement  
11 rates for all calculations.

12 In summary, ORS calculated Woodland's test year service revenue for sewer  
13 operation, after accounting and pro forma adjustments, of \$165,422. For  
14 comparison purposes, ORS calculated the proposed Settlement sewer service  
15 revenues of \$264,580.

16 **Q. PLEASE EXPLAIN EXHIBIT WJM-4 OF YOUR REPORT.**

17 A. Exhibit WJM-4 is a summary of the current Commission approved rates for  
18 Woodland and the Settlement Agreement proposed rates for Woodland.

19 **Q. PLEASE EXPLAIN THE STATUS OF THE PERFORMANCE BOND FOR**  
20 **WOODLAND.**

21 A. The purpose of a utility's performance bond is to provide sufficient financial  
22 assurance to both the customer and the Commission in the event that the utility  
23 fails to provide safe and adequate service. Pursuant to 26 S.C. Code Regs. 103-

1 512.3.1, "the amount of bond shall be based on, but not limited to, the total  
2 amount of the following categories of expenses for twelve months: Operation and  
3 Maintenance Expenses, General and Administrative Expenses, Taxes Other Than  
4 Income Taxes, Income Taxes, and Debt Service including Interest Expenses." The  
5 bond amount is also set forth in S.C. Code Ann. Section 58-5-720 (Supp. 2005).  
6 The Commission's regulations state that the bond amounts must range from an  
7 amount not less than \$100,000 and not more than \$350,000.

8 Woodland has a current performance bond filed with the Commission for sewer  
9 operation which utilizes a Personal Financial Statement on file at the Commission  
10 as surety in the amount of \$100,000 for sewer.

11 Based on the expenses from the test year and using the criteria set forth in 26 S.C.  
12 Code Regs. 103-512.3.1, ORS determined that the face amount of Woodland's  
13 bond should be \$225,000 for wastewater operations (Exhibit WJM-5). ORS's  
14 bonding criteria expenses for the test year following accounting and pro forma  
15 adjustments after proposed increase per the settlement is computed to be  
16 \$225,093. To protect the ratepayers in the event the utility becomes non-viable,  
17 Woodland, pursuant to the Settlement Agreement, has agreed to file with the  
18 Public Service Commission a performance bond for sewer operation in the  
19 amount of \$225,000.

20 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SETTLEMENT**  
21 **AGREEMENT REACHED BY THE PARTIES OF RECORD.**

1 A. Following extensive discussions, the parties have each determined that their  
2 interests, as well as the interest of the public would be best served by settling all  
3 pending issues in this proceeding.

4 It is the position of ORS that the Settlement Agreement, as presented to this  
5 Commission, is a fair, reasonable and full resolution to all issues in this  
6 proceeding. Further, the Settlement Agreement represents the public interest as it  
7 preserves the balance referred to in S.C. Code § 58-4-10:

8 ... 'public interest' means a balancing of the following:  
9

- 10 (1) Concerns of the using and consuming public with  
11 respect to public utility services, regardless of the  
12 class of customer;
- 13 (2) Economic development and job attraction and  
14 retention in South Carolina; and
- 15 (3) Preservation of the financial integrity of the State's public utilities  
16 and continued investment in and maintenance of utility facilities so  
17 as to provide reliable and high quality utility services.  
18  
19  
20

21 All parties agree that an increase in rates and charges is necessary for Woodland  
22 to provide its residential and commercial customers with safe and adequate  
23 wastewater services. ORS determined Woodland is currently operating under  
24 rates that do not allow it to earn a fair operating margin. The Settlement  
25 Agreement provides a schedule of proposed rates, terms and conditions that are  
26 fair and reasonable to both the customer and Woodland and will allow Woodland  
27 the opportunity to earn a fair operating margin. Specifically, Woodland has  
28 agreed to reduce its rates from those proposed in the original application for both  
29 residential and commercial sewer charges.

1 As stated earlier, it is the position of ORS and Woodland that this Settlement  
2 Agreement is fair and reasonable and represents full resolution of all issues in this  
3 proceeding and I would request the Commission approve the Settlement  
4 Agreement as presented today.

5 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

6 A. Yes it does.

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2007-61-S**

**Application of Woodland Utilities, Inc. for Adjustment of Rates and Charges for the  
Provision of Sewer Service**

**WILLIE J. MORGAN SETTLEMENT TESTIMONY**

**EXHIBIT INDEX**

<b><u>EXHIBIT NO.</u></b>	<b><u>EXHIBIT TYPE</u></b>	<b><u>PREPARED BY</u></b>
WJM-1	ORS Business Office Compliance Review	ORS
WJM-2	ORS Water/Wastewater System Inspection Report	ORS
WJM-3	Service Revenue Impact	ORS
WJM-4	Woodland Current and Proposed Settlement Rate Overview	ORS
WJM-5	Performance Bond Requirement	ORS



**REVIEW OF WASTEWATER SERVICE  
WOODLAND UTILITIES, INC.  
DOCKET: 2007-61-S**

The Office of Regulatory Staff ("ORS") of South Carolina performed a Business Compliance audit of the revenue, customer complaint, and customer records of Woodland Utilities, Inc. ("Woodland") in preparation for this rate case. Woodland currently provides wastewater collection and wastewater treatment services to commercial and residential customers in portions of Lexington County. According to Woodland's application for the test year ending December 31, 2006, wastewater collection and treatment services were provided to 422 residential customers, 2 apartment complexes with 450 customers in all, and a school with 659 persons.

The ORS Consumer Services Department has received only one (1) consumer complaint regarding Woodland. This particular complaint was from a customer who complained about the proposed increase following the receipt of the notice about the rate adjustment application being filed. Since the Notice of Filing was mailed to Woodland's customers, the Public Service Commission has received no Petitions to Intervene and no Letters of Protest.

ORS determined Woodland provides adequate wastewater collection and treatment service.

The following 2 pages provide a summary of the ORS Business Compliance Audit results.



### ORS BUSINESS OFFICE COMPLIANCE REVIEW

Utility: Woodland Utilities, Inc.  
Inspector: Willie Morgan  
Office: 2712 Middleburg Drive, #208  
Utility Type: Wastewater  
Date: March 27, 2007  
Company Representative: Ms. Pat Gillam

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with Rule R.103-510.	X		
2	Complaint records maintained in accordance with R.103-516	X		Some complaint resolutions are missing on contractor forms.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530.	X		
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530.	X		
5	Deposits charged within the limits established by R.103-531.	N/A	N/A	Customers are not charged a deposit. However, they are billed in advance.
6	Timely and accurate bills being rendered to customers in accordance with R.103-532.	X		Bills are issued at end of previous month. Payment is due by the 25 <sup>th</sup> of the month.
7	Bill forms in accordance with R.103-532.	X		
8	Adjustments of bills handled in accordance with R.103-533	X		
9	Policy for customer denial or discontinuance of service in accordance with R.103-535.	X		Copy of policy/procedures provided by utility for review.
10	Notices sent to customers prior to termination in accordance with Rule R.103-535.	X		Collection process handled through magistrate filing process. Typically, almost all customers cooperate.
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C.	X		Unsatisfactory rating given by DHEC during inspection on 11/29/06 at WWTF. According to contractor letter of 12/19/06, problems have been addressed.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530.	X		Customers are provided with notice on their bill with contact number. Calls go to Columbia Sewer and Drainage for service emergencies.
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514.	X		None occurred.
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, emergencies during non-office hours.	X		New utility representative form provided as part of rate case.
15	Company verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the company has at present time.			422 Residential, 2 Commercial (apartment units), 1 school
17	Company has a current performance bond on file with the Commission. Amount of bond: \$100,000	X		Personal Financial Statement



## ORS WASTEWATER SYSTEM INSPECTION REPORT

### Inspection Overview

Date Inspected: March 30, 2007  
 Inspector Name: Willie Morgan  
 Docket Number: 2007-61-S  
 Utility Name: Woodland Utilities, Inc.  
 Utility Representative: James Leroy & Mike Murphy - E A Services, Craig Powel - BP Barber  
 Number of Customers: 422 residential, 2 apt. complexes (450 apt. units), 1 school (659 persons)  
 System Type (collection, force main, lagoon, etc): Collection, Force Main, Lagoon  
 Location of System: Lexington County  
 Location of Utility Office: 2712 Middleburg Drive, Suite 208  
 Treatment Type: Collection and Biological Treatment System  
 Permit #: SC0029475  
 Last SC DHEC Compliance Rating: Unsatisfactory  
 Frequency checked by WWTF Operator: Daily  
 Drinking Water Provider: City of Columbia

### Inspection Results

	System Components Inspected	Compliance		Comments
		Yes	No	
1	Chlorinator	X		Chlorine tablets currently were being used - last two weeks. Chlorine gas cylinders normally used.
2	Other chemicals in use	X		Sulfur Dioxide injection is used for dechlorination.
3	Aerators present	X		6 aerators are used in lagoon. One aerator had some mechanical problem on the day of the site visit.
4	Plant fenced and locked	X		
5	Warning Signs Visible	X		
6	Fence in good condition	X		
7	Dikes in good condition	X		
8	Odor non-existent or limited	X		
9	Grass mowed	X		
10	Duckweed/Algae acceptable	X		Duckweed present on more than half of lagoon.
11	Grease build-up acceptable	X		
12	Plant free of debris	X		
13	Effluent Color acceptable	X		
14	Lift Stations present	X		1 lift station on WWTF system for Woodland and 1 additional lift station in service area to Alpine Utilities.
15	Failure Warning System adequate	X		
16	Electric Wiring adequate	X		
17	System free of leaks	X		
18	System free of overflows	X		
19	Access road adequate	X		
20	Ability for service area to expand	X		Service area is fully developed.

### Additional Comments:

Lagoon system has one influent pipe. Lagoon is approximately six feet deep. Unsatisfactory rating given by DHEC during inspection on 11/29/06 at WWTF. According to contractor letter of 12/19/06, problems have been addressed.

## Woodland Utilities, Inc.

2007-61-S

## Service Revenue Impact

## Woodland Utilities, Inc. Test Year Revenues at Current Rates

Service Type	Classification	Customer	Service Units	Fee per Unit	Test Year Calculated Revenues
Sewer	Residential	Single-family Houses	422	\$15.00	\$75,960
	Apartment	Willow Creek Apartments (142 Apt. Units)	1	\$15.00	\$25,560
		Woodland Village Apts. (308 Apt. Units)	1	\$15.00	\$55,440
	Schools	School District #5 (659 Persons)	1	\$1.07	\$8,462
<b>Sewer Service Total</b>					<b>\$165,422</b>

## Woodland Utilities, Inc. Revenues at Settlement Rates

Service Type	Classification	Customer	Service Units	Fee per Unit	Test Year Proposed Settlement Revenues	Increase Amount	% Increase
Sewer	Residential	Single-family Houses	422	\$24.00	\$121,536	\$45,576	60.0%
	Apartment	Willow Creek Apartments (142 Apt. Units)	1	\$24.00	\$40,896	\$15,336	60.0%
		Woodland Village Apts. (308 Apt. Units)	1	\$24.00	\$88,704	\$33,264	60.0%
	Schools	School District #5 (659 Persons)	1	\$1.70	\$13,444	\$4,982	58.9%
<b>Sewer Service Total</b>					<b>\$264,580</b>	<b>\$99,158</b>	<b>59.9%</b>

Customer Late Fees, Tap Fees and Reconnection Fees are not included in any of the above computations.

		Test Year Calculated Revenues	Test Year Proposed Settlement Revenues
<b>Sewer Service Total</b>		<b>\$165,422</b>	<b>\$264,580</b>
Late Fees - Residential		\$480	\$784
Late Fees - Commercial		\$210	\$336
Other Accts Receivable Adjustments		-\$844	-\$844
<b>Grande Total</b>		<b>\$165,268</b>	<b>\$264,856</b>

Woodland Utilities, Inc.  
2007-61-S  
Current and Settlement  
Wastewater Rates

**SEWER SERVICE RATES AND CHARGES**

<b><u>MONTHLY CHARGES</u></b>	<b><u>Current</u></b>	<b><u>Proposed Rates in Application</u></b>	<b><u>Settlement Proposed Rates</u></b>
Residential - charge per single-family house:	\$15.00 per unit	\$31.50 per unit	\$24.00 per unit
Apartment:	\$15.00 per unit	\$31.50 per unit	\$24.00 per unit
Schools (with Cafeteria, no gym, no showers):	\$1.07 per person*	\$2.46 per person*	\$1.70 per person*
<b><u>NONRECURRING CHARGES:</u></b>			
	<b><u>Current</u></b>	<b><u>Rates After Settlement**</u></b>	<b><u>Rates After Settlement**</u></b>
Single Family Residence - Sewer Tap Fee	\$250.00	\$250.00	\$250.00
Apartments - Sewer Tap Fee	\$250.00	\$250.00	\$250.00
Schools - Sewer Tap Fee	\$17.00	\$17.00	\$17.00
Per Person (No Showers, Gym, Cafeteria)			
Per Person (With Cafeteria, No Gym, Showers)	\$21.00	\$21.00	\$21.00
Per Person (With Cafeteria, Gym and Showers)	\$25.00	\$25.00	\$25.00

\* Based upon SCDHEC's guidelines for unit contributory loadings to wastewater treatment facilities.

\*\* Woodland did not request a change in nonrecurring charges.

**Woodland Utilities, Inc.**  
**2007-61-S**  
**Performance Bond Requirement**

Exhibit C  
Page 51 of 51  
Exhibit WJM-5

	Woodland Utilities, Inc. - Wastewater		
	Per Company Application	After Accounting & Pro forma Adjustments	After Proposed Settlement Increase
<b>Bond Value Components</b>			
Power Purchased for Pumping	\$34,112	\$34,112	\$34,112
Materials, Supplies and Repairs	\$78,420	\$78,420	\$78,420
Salaries and Benefits	\$68,267	\$50,137	\$50,137
Contractual Services	\$20,564	\$16,540	\$16,540
Overhead and Office Rent	\$1,970	\$6,440	\$6,440
Equipment Rental	\$1,168	\$1,168	\$1,168
Miscellaneous	\$835	\$835	\$835
Depreciation	\$5,900	\$3,939	\$3,939
Rate Case	\$0	\$13,950	\$13,950
Taxes Other Than Income	\$8,172	\$6,777	\$7,599
Income Taxes (State and Federal)	\$0	\$0	\$9,479
Interest Expense	\$5,017	\$2,474	\$2,474
<b>Bond Value Requirement</b>	<b>\$224,425</b>	<b>\$214,792</b>	<b>\$225,093</b>
<b>Current Performance Bond Structure (1)</b>	<b>Bond Value</b>	<b>Expiration Date</b>	
Personal Financial Statement	\$100,000	07/19/07	
<b>Total Financial Assurance</b>	<b>\$100,000</b>		

(1) As reported on Personal Financial Statement received 7/19/06.

(2) Personal Financial Statement secures performance bond of \$100,000 for wastewater operations.